

*Deficit*

CITY OF MASON  
33-7512  
LOCAL DEVELOPMENT FINANCE AUTHORITY  
INGHAM COUNTY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004  
AND  
INDEPENDENT AUDITORS' REPORT



**Layton & Richardson, P.C.**  
Certified Public Accountants

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>CITY OF FRASER LOCAL</u> County <u>INGHAM</u>
Audit Date <u>6-30-04</u>	Opinion Date <u>8-12-04</u>	Date Accountant Report Submitted to State: <u>12-21-04</u>

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

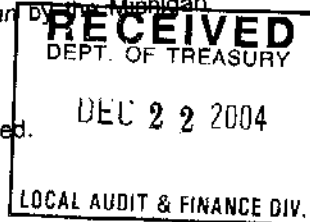
The letter of comments and recommendations.

Reports on individual federal financial assistance programs (program audits).

Single Audit Reports (ASLGR).

Enclosed	To Be Forwarded	Not Required
		X
		X
		X

Certified Public Accountant (Firm Name) <u>LAYTON &amp; RICHARDSON, P.C.</u>		City <u>EAST LANSING</u>	State <u>MI</u>	ZIP <u>48823</u>
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# Layton & Richardson, P.C.

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
of the City of Mason  
Mason, Michigan

We have audited the accompanying basic financial statements of the governmental activities, and the business-type activities of the CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the City of Mason Local Development Finance Authority as of June 30, 2004, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

As described in Note 2, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-For State and Local Governments*; as amended by GASB 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2004, on our consideration of the City of Mason Local Development Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Mason Local Development Finance Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

*Layton + Richardson PC*  
*Certified Public Accountants*

August 12, 2004  
East Lansing, Michigan

# **City of Mason Local Development Finance Authority**

## **Management's Discussion and Analysis**

The City of Mason's Local Development Finance Authority (LDFA) uses tax increment financing to fund infrastructure and development in the City's Industrial Park. Our discussion and analysis of the LDFA financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Property tax base decreased by \$477,523 due to a Board of Review decision.
- Total combined net assets related to the LDFA's governmental activities increased by approximately \$391,913.
- The LDFA has an annual expense to the Ingham County Economic Development Corporation. For 2003/2004 the expense was \$10,510.
- The audit fee was \$1,800.
- The 2001 tax year was the last year that the Kent Feeds tax abatement was in place. For 2002, it was on the ad valorem roll, and Kent Feeds requested a reduction in value. By the 2003/2004 fiscal year the Michigan Tax Tribunal was hearing the case and the City of Mason incurred \$12,000 in expense for an industrial property appraisal.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City's LDFA as a whole and present a longer-term view of the LDFA's finances. This longer term view uses the accrual basis of accounting so that it can provide an approximate measure of the cost of funding infrastructure improvements during the current year, and estimate how closely the LDFA is funded.

The fund financial statements present a short-term view; they tell us how the resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the LDFA's operations in more detail than the government wide financial statements.

# City of Mason Local Development Finance Authority

## Management's Discussion and Analysis (continued)

### Reporting the Local Development Finance Authority as a Whole

One of the most important questions asked about the Local Development Finance Authority's finances is, "Is the Local development Finance Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Local Development Finance Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Local Development Finance Authority's *net assets* and changes in them. You can think of the Local Development Finance Authority's net assets – the difference between assets and liabilities – as one way to measure the Local Development Finance Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Local Development Finance Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Local Development Finance Authority's captured property tax base to assess the *overall health* of the Local Development Finance Authority.

In the Statement of Net Assets and the Statement of Activities, the Local Development Finance Authority is shown as a governmental activity while within the City of Mason's audit they are shown as a component unit:

- Governmental activities – the Local Development Finance Authority's services are reported here. Property taxes finance most of these activities.

### Reporting the Local Development Finance Authority's Most Significant Funds

The fund financial statements provide detailed information about the Local Development Finance Authority's funds. The Local Development Finance Authority's funds utilize the *governmental* accounting approach.

- Governmental funds – Most of the Local Development Finance Authority's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting*, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental

# City of Mason Local Development Finance Authority

## Management's Discussion and Analysis (continued)

fund statements provide a detailed *short-term* view of the Local Development Finance Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Local Development Finance Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.

### The Local Development Finance Authority as a Whole

The Local Development Finance Authority was created to serve as a vehicle to fund infrastructure improvements and promote development. Specifically, water and sewer lines were extended to the area designated as the Sycamore Industrial Park. As parcels of land were utilized, lines were extended further as needed. The water and sewer infrastructure is owned and maintained by the City of Mason. The LDFA incurred debt to extend the lines, but the City of Mason retains ownership of the infrastructure. Therefore, the net assets of the Local Development Finance Authority on the Statement of Net Assets and Statement of Activities is a deficit.

Table 1 was summarized from the Local Development Finance Authority Statement of Net Assets. The combined net assets of the Local Development Finance Authority increased from \$(1,703,142) to \$(1,311,229), an increase of \$391,913 or 23%. As this is the first year of reporting in accordance with GASB Statement # 34, a comparison to the prior year is not available.

**Table 1**  
**Net Assets**

	<b>Governmental Activities</b>
Current and other Assets	\$ 693,115
Capital Assets	426,352
Total Assets	1,119,467
Long-term debt Outstanding	2,410,978
Other Liabilities	19,718
Total Liabilities	2,430,696
Net assets:	
Invested in capital assets net of debt	426,352
Restricted	
Unrestricted (deficit)	(1,737,581)
Total net assets	\$(1,311,229)

# City of Mason Local Development Finance Authority

## Management's Discussion and Analysis (continued)

### Governmental Activities

As stated previously, the net assets of the Local Development Finance Authority's governmental activities increased by \$391,913 or 23%. Unrestricted net assets – the part of net assets that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is recorded as a deficit of \$(1,737,581.)

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide revenues, and expenses of the Local Development Finance Authority.

**Table 2**  
**Change in Net Assets**

	<b>Governmental Activities</b>
<b>Revenues</b>	
General Revenue	
Property taxes	\$ 710,315
Other	11,556
Total revenues	721,871
<b>Expenses</b>	
General Government	169,785
Total Expenses	169,785
Increases in Net Assets before Transfers	
Transfers	(160,173)
Increase in Net Assets	(160,173)
Net Assets July 1	(1,703,142)
Net Assets June 30	\$(1,311,229)

Total revenue from all sources totaled \$721,871 of which 98.4% or \$710,315 is from property taxes. Other revenues consist of unrestricted investment earnings of \$11,556. The Local Development Finance Authority was able to capture 59.991% of the City of Mason millage rate of 13.25, the county operation millage of 8.6011, MPS Operating millage of 17.985, State Education Tax mileage of 5.0000, Lansing Community College millage of 3.8544, Ingham Intermediate District millage of 6.0553, Mason School Debt millage of 5.0000, Capital Area District Library millage of 1.4600.

The governmental activities of the Local Development Finance Authority had an expense of \$169,785 for the past fiscal year. Due to utilizing full accrual on the

# **City of Mason Local Development Finance Authority**

## **Management's Discussion and Analysis (continued)**

government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current year depreciation is included as an expense. Additionally, the Local Development Finance Authority had transfers to Bond payment funds in the amount of \$160,173. The \$169,785 for governmental activities along with the transfers of \$160,173 is funded from \$710,315 in property taxes.

### **The Local Development Finance Authority's Funds**

The LDFA was created in the Sycamore Industrial Park as a tool to finance public infrastructure that would encourage industrial development and investment into the city.

The financial position of the LDFA improved due to three major factors. An increase in the percentage of tax available for capture offset a reduction in taxable value, thus avoiding a decline in revenue levels. The second was a reduction in debt expenditures resulting from refinancing. The third factor is a decrease in the amount of tax refunds due to Michigan Tax Tribunal decisions and Board of Review changes.

Five of the ten parcels with the highest SEV/TV in the City are located within the LDFA. Three of the City's top ten taxpayers reside in the LDFA. There are ten abatement parcels located in the LDFA for this fiscal year. It is not uncommon for properties with tax abatements to request an adjustment to taxable value when the abatement ends and the property reverts to the ad valorem roll.

The LDFA expenditures consist primarily of debt payment and tax refunds. There is also an annual expense to the Ingham County Economic Development Corporation which supports growth in the Industrial Park.

### **Local Development Finance Authority Budgetary Highlights**

Over the course of the year, the City Council monitors and amends the budget to take into account events during the year. There were no significant changes to the LDFA budget during this fiscal year.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

The LDFA's investment in capital assets for its governmental activities as of June 30, 2004 amounts to \$426,352 (net of accumulated depreciation.) This investment in capital assets was for a Platform Aerial Fire Apparatus. This was purchased in

# **City of Mason Local Development Finance Authority**

## **Management's Discussion and Analysis (continued)**

accordance with the LDFA plan in 2001 for adequate fire protection of the industrial park as well as other areas of the City. No additional investment in capital assets was made during the fiscal year.

### **Debt**

The LDFA issued no debt during the fiscal year. The LDFA's bonded indebtedness totaled \$2,098,055 on June 30, 2004.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for the 2004-2005 fiscal year includes the growth of the property tax base due to new investments made by SSAB HardTech, Efficiency Production Incorporated, and Michigan Packaging Company. There is no change in property tax rates. Because of the impact of Proposal A, plus weak State government finances and reduced interest income, the City needs to continue to watch the LDFA's budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the LDFA will grow less than the rate of inflation, notwithstanding new property additions.

The City will continue to identify and encourage additional industrial growth opportunities for the LDFA. The next implementation phase of the LDFA plan is to install an additional water well. The City has been actively seeking a suitable site for the well for several years. Officials hope to begin construction in the 2005/2006 fiscal year. Interest rates are expected to increase, which will assist in building interest income.

### **Contacting The City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Administrator's office.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**JUNE 30, 2004**

	LOCAL DEVELOPMENT FINANCE AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 692,855	\$	\$ 692,855
Delinquent tax receivable	260		260
Capital assets		426,352	426,352
<b>TOTAL ASSETS</b>	<u>\$ 693,115</u>	<u>\$ 426,352</u>	<u>\$ 1,119,467</u>
<b>LIABILITIES AND FUND BALANCE/NET ASSETS</b>			
<b>LIABILITIES</b>			
Accrued interest	\$	19,718	\$ 19,718
Long-term liabilities			
Portion due within one year		312,923	312,923
Portion due after one year		2,098,055	2,098,055
<b>TOTAL LIABILITIES</b>		<u>2,430,696</u>	<u>2,430,696</u>
<b>FUND BALANCE/NET ASSETS</b>			
Invested in capital assets, net of related debt		426,352	426,352
Unreserved	693,115	(2,430,696)	(1,737,581)
<b>TOTAL FUND BALANCE/NET ASSETS</b>	<u>693,115</u>	<u>(2,004,344)</u>	<u>(1,311,229)</u>
<b>TOTAL LIABILITIES AND FUND BALANCE/NET ASSETS</b>	<u>\$ 693,115</u>	<u>\$ 426,352</u>	<u>\$ 1,119,467</u>

See accompanying notes to financial statements.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

Total fund balances - governmental funds		\$ 693,115
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 710,587 and the accumulated depreciation is \$284,235.		426,352
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	\$ (2,410,978)	
Interest accrued	<u>(19,718)</u>	<u>(2,430,696)</u>
Total net assets - governmental activities		\$ <u><u>(1,311,229)</u></u>

See accompanying notes to financial statements.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUE,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	LOCAL DEVELOPMENT FINANCE AUTHORITY GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES			
General government	\$ 413,201	\$ (314,475)	\$ 98,726
Depreciation		<u>71,059</u>	<u>71,059</u>
	<u>413,201</u>	<u>(243,416)</u>	<u>169,785</u>
PROGRAM REVENUES			
Property taxes	<u>710,315</u>		<u>710,315</u>
NET PROGRAM EXPENSE/REVENUE	297,114	243,416	540,530
GENERAL REVENUES			
Interest	11,556		11,556
TRANSFERS	<u>(160,173)</u>		<u>(160,173)</u>
CHANGES IN FUND BALANCE/NET ASSETS	<u>148,497</u>	<u>(243,416)</u>	<u>391,913</u>
FUND BALANCE/NET ASSETS, JULY 1	<u>544,618</u>	<u>(2,247,760)</u>	<u>(1,703,142)</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>693,115</u></u>	\$ <u><u>(2,004,344)</u></u>	\$ <u><u>(1,311,229)</u></u>

See accompanying notes to financial statements.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

Net changes in fund balances - total governmental funds		\$	148,497
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.			
Less: current year depreciation			(71,059)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.			
Accrued interest	\$	3,104	
Principal payments		<u>311,371</u>	<u>314,475</u>
Change in net assets - governmental activities		\$	<u><u>391,913</u></u>

See accompanying notes to financial statements.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
REVENUES				
Property taxes	\$ 710,140	\$ 710,310	\$ 710,315	\$ 5
Interest earnings	<u>7,000</u>	<u>4,000</u>	<u>11,556</u>	<u>7,556</u>
TOTAL REVENUES	<u>717,140</u>	<u>714,310</u>	<u>721,871</u>	<u>7,561</u>
EXPENDITURES				
Other	29,485	29,485	29,475	10
Bond/loan principal	324,450	324,450	324,448	2
Interest on fiscal charges	<u>59,455</u>	<u>59,455</u>	<u>59,278</u>	<u>177</u>
TOTAL EXPENDITURES	<u>413,390</u>	<u>413,390</u>	<u>413,201</u>	<u>189</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>303,750</u>	<u>300,920</u>	<u>308,670</u>	<u>7,750</u>
OTHER FINANCING USES				
Operating transfers out	<u>(160,175)</u>	<u>(160,175)</u>	<u>(160,173)</u>	<u>2</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	143,575	140,745	148,497	7,752
FUND BALANCE, JULY 1	<u>544,618</u>	<u>544,618</u>	<u>544,618</u>	
FUND BALANCE, JUNE 30	\$ <u>688,193</u>	\$ <u>685,363</u>	\$ <u>693,115</u>	\$ <u>7,752</u>

See accompanying notes to financial statements.

# **CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

### **NOTE 1: REPORTING ENTITY**

In accordance with provisions of Act 425, Public Acts of 1984, the City of Mason and the Township of Vevay signed an agreement dated November 3, 1989 in which approximately 134 acres is conditionally transferred from the Township to the City for a period of 30 years from the date of the agreement. As a condition of this agreement, the Local Development Finance Authority was created in 1989 in accordance with provisions of Act 281, Public Acts of Michigan, 1986 as amended. The purpose of the Local Development Finance Authority is to help stimulate economic growth, improve employment, stimulate new private investment in the City of Mason and Vevay Township, and broaden the local tax base. The Local Development Finance Authority consists of approximately 96 acres. Tax increment financing revenues captured from eligible property shall be used for public facilities within the tax increment financing district and may include road facilities and other public facilities which are necessary to serve the eligible property whether or not located on that eligible property. Any tax revenues not required by the Local Development Finance Authority to finance public facilities to serve the eligible property within the district shall revert proportionally to the respective taxing jurisdiction.

On July 5, 1994, the City Council amended the P.A. 425 agreement with VeVay Township to include additional land. On October 3, 1994, the City Council amended the boundary for the LDFA to include an additional 67.87 acres. Of that amount, 31.87 acres belong to Michigan Packaging Corporation, and 36 acres belong to Aggregate Industries, Inc. Mason Plant. Michigan Packaging Corporation constructed a large manufacturing plant.

In accordance with GASB Statement 14 and the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Local Development Finance Authority is considered a component unit of the City of Mason for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the City of Mason Local Development Finance Authority are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Mason, Michigan.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Mason Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

#### **A. Government-Wide and Fund Financial Statement**

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) reports information on all of the nonfiduciary activities of the City of Mason Local Development Finance Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS - Continued**

JUNE 30, 2004

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

**A. Government-Wide and Fund Financial Statement - Concluded**

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**B. Measurement Focus, Basis of Accounting and Financial Statements**

The government-wide financial statement is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Governmental fund financial statement is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

**C. Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**D. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Local Development Finance Authority as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. Depreciation is applied over the estimated useful life of capital assets.

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS - Continued**

JUNE 30, 2004

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

**D. Capital Assets - Concluded**

Straight-line and declining balance depreciation methods are used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Vehicles	7-10 years

**E. Long-Term Liabilities**

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

**NOTE 3: RESTRICTED REVENUE AND EXPENDITURES**

The City of Mason Local Development Finance Authority (LDFA) receives property tax revenue for construction or improvement of public facilities within the LDFA district. The City of Mason, Michigan Water and Sewer Fund issued \$1,125,000 of revenue bonds to finance construction of water and sewer mains to serve the LDFA district. The LDFA has agreed to reimburse the City of Mason Water and Sewer Fund for the debt service. The LDFA is restricted to disburse funds for payment of debt service until such time the bond issue is paid in full.

**NOTE 4: DEPOSITS**

At year end, bank deposits amounted to \$692,855, which were partially covered by federal depository insurance and is recorded in the financial statements as cash and cash equivalents.

**NOTE 5: LONG-TERM DEBT**

The following is a summary of long-term debt transactions for the year ended June 30, 2004.

	BALANCE, JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30	DUE WITHIN ONE YEAR
\$425,000 1992 Local Development Financing Authority Bonds due in annual installments of \$10,000 to \$35,000 through October 1, 2013; interest at 5.75% to 8.00%	\$ 295,000	\$( 20,000)	\$ 275,000	\$ 20,000

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS - Continued**

JUNE 30, 2004

**NOTE 5: LONG-TERM DEBT - Concluded**

	BALANCE, JULY 1	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30	DUE WITHIN ONE YEAR
\$1,125,000 1994 Local Development Financing Authority Bonds due in annual installments of \$75,000 to \$85,000 through April 1, 2010; interest at 6.10% to 7.65%.	\$ 585,000	\$( 80,000)	\$ 505,000	\$ 80,000
\$1,386,000 1998 Local Development Financing Authority, Michigan Jobs Commission, Series A due in annual installments of \$106,615 through August 1, 2011.	959,538	( 106,615)	852,923	106,615
\$1,414,000 1998 Local Development Financing Authority, Series B, due in annual installments of \$117,833 including interest, through March 1, 2011; effective interest rate of 14.81%.	<u>882,811</u>	<u>( 104,756)</u>	<u>778,055</u>	<u>106,308</u>
<b>TOTAL</b>	<b>\$ <u>2,722,349</u></b>	<b>\$ <u>( 311,371)</u></b>	<b>2,410,978</b>	<b>\$ <u>312,923</u></b>
Less: Amount payable within one year			<u>( 312,923)</u>	
<b>TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES</b>			<b>\$ <u>2,098,055</u></b>	

Annual debt service requirements to maturity for long-term obligations as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST
2005	\$ 312,923	\$ 63,723
2006	319,498	55,628
2007	326,096	46,668
2008	327,718	37,508
2009	329,364	28,306
2010	336,034	18,905
2011	252,729	9,302
2012	136,616	5,610
2013	35,000	3,465
2014	<u>35,000</u>	<u>1,155</u>
	<b>\$ <u>2,410,978</u></b>	<b>\$ <u>270,270</u></b>

**CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS - Concluded**

**JUNE 30, 2004**

**NOTE 6: OPERATING TRANSFERS**

The following are the operating transfers for the year ended June 30, 2004:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General	\$ 7,200	Local Development	
Water and Sewer	<u>152,973</u>	Finance Authority	\$ 160,173
	<u>\$ 160,173</u>		<u>\$ 160,173</u>

**NOTE 7: CAPITAL ASSETS**

A summary of changes in the Authority's capital assets is as follows:

	JULY 1	ADDITIONS	DELETIONS	JUNE 30
Capital assets being depreciated				
Vehicles	\$ 710,587	\$	\$	\$ 710,587
Less: Accumulated depreciation	<u>213,176</u>	<u>71,059</u>	<u></u>	<u>284,235</u>
Net capital assets	<u>\$ 497,411</u>	<u>\$ (71,059)</u>	<u>\$</u>	<u>\$ 426,352</u>

SUPPLEMENTARY INFORMATION

# Layton & Richardson, P.C.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council  
City of Mason  
Mason, Michigan

We have audited the general purpose financial statements of the CITY OF MASON LOCAL DEVELOPMENT FINANCE AUTHORITY, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City of Mason Local Development Finance Authority's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason Local Development Finance Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the City Council, management, and State and Federal Agencies. However, this report is a matter of public record and its distribution is not limited.

*Layton & Richardson P.C.*

Certified Public Accountants

East Lansing, Michigan  
August 12, 2004